

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 18, 2007

7:33 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Mike Kelly

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 1

Proposing amendments to the Constitution of the State of Alaska creating and relating to the gas revenue endowment fund, relating to deposits to the fund, limiting appropriations from the fund based on an averaged percent of the fund market value, relating to deposits to the permanent fund, and relating to deposits to the budget reserve fund.

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 1

SHORT TITLE: CONST. AM: GAS REVENUE ENDOWMENT FUND

SPONSOR(s): REPRESENTATIVE(s) HAWKER

01/16/07	(H)	PREFILE RELEASED 1/5/07
01/16/07	(H)	READ THE FIRST TIME - REFERRALS
01/16/07	(H)	W&M, JUD, FIN
03/21/07	(H)	W&M AT 7:30 AM HOUSE FINANCE 519
03/21/07	(H)	<Bill Hearing Canceled>
04/18/07	(H)	W&M AT 7:30 AM HOUSE FINANCE 519

WITNESS REGISTER

No witnesses to record

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [7:33:48 AM](#). Present at the call to order were Representatives Hawker, Roses, Fairclough, Seaton, Gruenberg, and Wilson. Representative Cissna arrived as the meeting was in progress.

[7:34:59 AM](#)

HJR 1-CONST. AM: GAS REVENUE ENDOWMENT FUND

[Contains some discussion of HOUSE JOINT RESOLUTION NO. 5, Proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.]

CHAIR HAWKER announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 1, Proposing amendments to the Constitution of the State of Alaska creating and relating to the gas revenue endowment fund, relating to deposits to the fund, limiting appropriations from the fund based on an averaged percent of the fund market value, relating to deposits to the permanent fund, and relating to deposits to the budget reserve fund.

CHAIR HAWKER, sponsor of HJR 1 suggested that a constitutional approach may be most appropriate for long-term budget planning and fiscal policy. This resolution proposes that the state place 100 percent of its revenues from gas production into an account very like the permanent fund, called the Gas Revenue Endowment Fund ("GREF"). The fund's earnings would be managed using a percent of market value (POMV) management approach and could be used for any public purpose, except for payment of individual dividends. This fund is intended to support the state and to capture the benefits of severing the state's gas resources. He introduced a spreadsheet based on the Department of Revenue's Fall 2003 Revenue Source Book. This chart shows the possible revenues available for the GREF. He noted that this document was prepared without reference to a potential gas pipeline and explained that although the actual numbers would be

different if the chart was prepared today, the mechanism and predictions are still relevant. The chart estimates the aggregate proceeds from gas production from 2007 to 2033 based on Chicago gas prices of \$4, \$5, and \$6 per mmBtu [British thermal unit]. He explained by the year 2030, the annual five percent draw down under POMV would be the same as the amounts going into the fund due to the effect of compounded earnings, mitigated by a five percent draw. He explained that, eventually, the five percent annual draw would be greater than the amount of gas revenues received by the state. He opined that if the state did save and invest its gas revenues, it would provide the state a true long-term endowment fund whereby our natural resources will have been converted into an ever-growing monetary resource.

[7:45:33 AM](#)

REPRESENTATIVE ROSES asked whether HJR 1 was possibly in conflict with HJR 5 since HJR 5 proposes to place all mineral revenues in a restricted savings account. He relayed his understanding that HJR 5 proposes to set up a spending account based on the five year average of mineral revenues. He expressed concern that the only revenues available to be considered as part of the five-year average would be the "five percent POMV." Therefore, if the proposals in HJR 1 and HJR 5 were both in place, all mineral revenues, minus those from gas, would go into the Balanced Budget Account proposed in HJR 5. He suggested that only five percent of the gas revenues would be available to determine the five year average if both proposals were adopted. He suggested that the committee carefully consider these two proposals to determine whether they should be combined in some way, or considered separately.

[7:47:50 AM](#)

CHAIR HAWKER noted that HJR 5 was designed to mitigate spending in a time of high oil prices. He opined that approach has a great deal of merit, and that the public and some members of the legislature desire some type of spending limits. He opined that when a non-renewable resource is severed, it is gone forever absent efforts to preserve its monetary benefits for future use.

REPRESENTATIVE ROSES said that HJR 5 proposes a forced savings account with significant spending restrictions. He expressed his approval that HJR 1 does not propose to place funds in the Constitutional Budget Reserve (CBRF) or into the permanent fund dividend account. As oil prices continue to decline, at what

point does the declination of oil revenues equal or exceed five percent of the market value, he queried. At that point, money would still be coming in, but at a lesser rate, he predicted. If the decrease in oil revenues exceeds the increase in gas revenues, the state would have even less revenue available, he suggested. He noted that it will turn around "when it gets to the huge numbers," but up to that point there is a fairly level funding stream.

CHAIR HAWKER suggested that the state currently does not have a plan to get it through the "bridge period" between now and a gas pipeline. He explained that HJR 1 is intended to provide a mechanism to use revenues received from "natural gas produced on the North Slope," to establish an endowment fund. He volunteered that there will be some gas liquids in any gas stream and said he has an amendment that will propose to exclude revenues from gas liquids that are intended for pump station utility use, or are incident to oil transported in the Trans-Alaska Pipeline System (TAPS). The aforementioned liquids are "de minimis," however, the GREF proposed by HJR 1 would include gas liquids that may be part of the planned gas pipeline.

REPRESENTATIVE SEATON clarified that the GREF would include gas liquids delivered via gas pipeline, but not gas liquids delivered through TAPS. He asked about the inclusion of production from Point Thompson.

CHAIR HAWKER indicated that Point Thompson production would be included as one of the carbon molecules classified as C-1 through 8.

[7:58:31 AM](#)

CHAIR HAWKER explained that HJR 1 is drafted so as to intercept all revenues related to gas for placement in the GREF instead of into the permanent fund. He explained that HJR 1 creates a stand alone account that does not affect the CBRF at all.

REPRESENTATIVE CISSNA opined that long term investments tend to offer more rewards, and asked if the mechanism in HJR 1 supports stable investment returns.

[8:02:26 AM](#)

CHAIR HAWKER agreed that capital markets support a higher rate of return for long term investments than for short term investments. He noted that the permanent fund manages for the

long term, but must also take into account the need to build up cash to pay dividends and yearly management expenses.

REPRESENTATIVE WILSON asked about the operating expenses for the GREF.

CHAIR HAWKER reminded the committee the state will not receive any gas pipeline revenues for quite some time, if ever, but that there still needs to be a way to meet the state's future financial needs. Under the approach of HJR 1, there would be a slow ramp up of the account as it would appropriate only 5 percent of its revenues annually. Under this approach, it would take almost 18 years before the outgoing five percent would exceed the amount going into the fund, he said.

REPRESENTATIVE WILSON asked whether there needs to be some method to bridge the revenue gap between now and a gas pipeline.

CHAIR HAWKER agreed that figuring out how to fund the state's needs in times of low revenues will be difficult, and may eventually require use of the permanent fund earnings.

[8:08:54 AM](#)

REPRESENTATIVE FAIRCLOUGH set forth that setting up a new account may not be supported by the public due to perceptions that "it looks like a grab" of future funds. She offered that the permanent fund should be set up to use the POMV approach as that is good business practice and will provide "the bridge" for future revenue deficits. She noted that HJR 5 offers a spending cap, which she opined would find more public support. She suggested re-visiting the POMV approach to managing the permanent fund as a way to accomplish the goal of amending the constitution to afford a long-term revenue solution for the state.

CHAIR HAWKER asked for clarification as to how placement of funds into a state account can "be a grab."

REPRESENTATIVE FAIRCLOUGH responded that the public may feel like the state is trying to take all the resource revenues, instead of sharing it as it does under the permanent fund structure. She said that the public receives a direct benefit from growth of the permanent fund. She opined that the public may see it "as a limiting structure" on the growth of the annual permanent fund dividend. She acknowledged that the state does face a fiscal crisis, and must either manage its resources

differently or look to additional revenue sources. However, she opined that the public may not "believe we are at that point yet," and therefore may not support a separate fund that they perceive will reduce growth of the permanent fund dividend.

CHAIR HAWKER advocated that the public in general has a good grasp of fiscal issues.

8:15:08 AM

REPRESENTATIVE ROSES reminded the committee that future oil production is estimated to decline anywhere from 9 to 12 percent annually. He expressed concern about retaining some fund liquidity so as to have adequate revenues available to fund state needs in light of a possible significant decline in oil revenues.

8:18:24 AM

REPRESENTATIVE SEATON opined that HJR 5 does not impose a spending cap but a method to level revenue. He reminded the committee that the House previously voted two-thirds in favor of a POMV approach for management of the permanent fund and opined that there was no adverse political fallout from that decision. He predicted that the permanent fund will have to go to POMV for sustainability and it may be more logical to have one fund.

8:21:58 AM

CHAIR HAWKER reminded the committee that the legislature can spend 100 percent of the permanent fund earnings at present because those funds are unrestricted. He emphasized that the point of endowment accounting is to not over-spend earnings, but to make certain they are re-capitalized at a sustainable growth rate.

REPRESENTATIVE FAIRCLOUGH pointed out that she recognizes the need for a discussion regarding the permanent fund and the possibility of adjustments as to how the permanent fund is managed.

REPRESENTATIVE WILSON explained her education efforts with regard to the POMV approach and opined that the citizens are willing to take steps to solve fiscal problems once they realize the extent of the fiscal issues facing the state.

REPRESENTATIVE ROSES asked for more information as to how this approach, which would divert revenue into the GREF, will not also result in spending cuts.

CHAIR HAWKER characterized the approach as offering a "supply side spending limit."

REPRESENTATIVE SEATON offered his belief that this approach is to establish that a particular source of revenue is not available for spending, which he opined is not the same as a spending cap. He offered that it does not restrict the ability of the state to increase revenues through taxes or bonds, therefore it is not a spending cap.

REPRESENTATIVE ROSES defined it as a spending cap based on current method of revenue but not a spending cap if the state is willing to consider new revenue sources.

REPRESENTATIVE GRUENBERG reminded the committee of past efforts to develop solutions to the fiscal issues facing the state. He expressed support for a meaningful integrated approach to the issue of long-range planning as it is the most important issue facing the state.

[8:34:40 AM](#)

CHAIR HAWKER noted that there are significant differences of opinion on the specific approaches put forth to solve fiscal issues, which can make it difficult to agree on only one approach. He reminded the committee that resolutions cannot be vetoed by the governor and emphasized that efforts need to be made to "agree where we can agree" so as to establish philosophical objectives.

[8:37:48 AM](#)

REPRESENTATIVE GRUENBERG volunteered that the approach proposed in HJR 1 could help to alleviate a number of problems. He suggested that there are many approaches to consider when designing a long-term approach to fiscal issues.

REPRESENTATIVE SEATON mentioned that further consideration of HJR 1 could be in conjunction with the fiscal plan proposed by HB 125.

REPRESENTATIVE FAIRCLOUGH referred to the successful investment approach of Rasmuson Foundation and the Foraker Group and

suggested that these groups could provide some guidance to the state.

REPRESENTATIVE WILSON pointed out that there can be a great deal of emotion surrounding any discussion of the permanent fund.

[8:48:24 AM](#)

CHAIR HAWKER suggested that public interest in fiscal issues varies depending on the extent of the state's financial problems and opined that these discussions have matured over the years to allow for a fuller discussion of options.

REPRESENTATIVE ROSES reminded the committee that there is significant experience and success in account management strategies by economists in DOR and the permanent fund.

REPRESENTATIVE SEATON referred to past decisions in retirement issues which resulted in the under funding of the retirement plans. He addressed the need to directly address any proposed spending cap so that money is not restricted in one area that has a negative long-term effect on another area.

[HJR 1 was held in committee.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [8:54:41 AM](#).